

**MINUTES OF THE
JOINT MEETING OF THE ASSEMBLY COMMITTEE ON WAYS AND MEANS
AND THE
SENATE COMMITTEE ON FINANCE**

**Seventy-Sixth Session
May 9, 2011**

The Joint Assembly Committee on Ways and Means and the Senate Committee on Finance was called to order by Chairwoman Debbie Smith at 8:48 a.m. on Monday, May 9, 2011, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4412E of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/76th2011/committees/. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblywoman Debbie Smith, Chairwoman
Assemblyman Marcus Conklin, Vice Chair
Assemblyman Paul Aizley
Assemblyman Kelvin Atkinson
Assemblyman David P. Bobzien
Assemblywoman Maggie Carlton
Assemblyman Pete Goicoechea
Assemblyman Tom Grady
Assemblyman John Hambrick
Assemblyman Crescent Hardy
Assemblyman Pat Hickey
Assemblyman Joseph M. Hogan
Assemblyman Randy Kirner
Assemblywoman April Mastroluca
Assemblyman John Ocegüera

SENATE COMMITTEE MEMBERS PRESENT:

Senator Steven A. Horsford, Chair
Senator Sheila Leslie, Vice Chair

Senator Barbara K. Cegavske
Senator Moises (Mo) Denis
Senator Ben Kieckhefer
Senator David R. Parks
Senator Dean A. Rhoads

STAFF MEMBERS PRESENT:

Rick Combs, Assembly Fiscal Analyst
Mark Krmpotic, Senate Fiscal Analyst
Mike Chapman, Principal Deputy Fiscal Analyst
Rex Goodman, Principal Deputy Fiscal Analyst
Laura Freed, Senior Program Analyst
Scott Edwards, Program Analyst
Anne Bowen, Committee Secretary
Cynthia Wyett, Committee Assistant

DEPARTMENT OF TRANSPORTATION
NDOT-TRANSPORTATION ADMINISTRATION (201-4660)
BUDGET PAGE NDOT-2

Scott Edwards, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB), stated that the major closing issues for the Department of Transportation (NDOT) included the (1) Highway Fund Balance; (2) federal funding and capital expenditures; (3) a new building called the Roop Street Annex; (4) the reorganization involving the Department of Public Safety Bicycle Safety Program; (5) two technology investment requests; and (6) airplane maintenance.

Mr. Edwards said the first major issue was the Highway Fund balance, federal funding, and capital expenditures. Major sources of revenue generated for the State Highway Fund consisted of vehicle registration and driver's license fees, special fuel tax, and gasoline taxes. Mr. Edwards noted that projections were provided by the Department of Motor Vehicles and were updated as of March 31, 2011. According to Mr. Edwards, the Department of Motor Vehicles (DMV) was projecting revenues to remain flat for the next biennium. Mr. Edwards said significant users of Highway Funds included NDOT, DMV, and the Department of Public Safety (DPS).

Referring to the Highway Fund balance, Mr. Edwards noted that based upon revenues, as of March 31, 2011, the Department estimated its unrestricted Highway Fund balance to be approximately \$110 million at the end of the

2011-2013 biennium. He also noted that the Department had identified a minimum balance of \$100 million for operating and capital construction purposes, which was based upon projected cash flow necessary to sustain one month of operating and 1.5 months of capital construction program expenditures. At \$110 million, the agency's projected Highway Fund balance appeared reasonable.

The recommended funding for highway and other capital construction totaled \$354 million in FY 2012, and \$343 million in FY 2013, including federal funds and Highway Fund proceeds. Ongoing federal funding was recommended at \$235 million in each year of the biennium, which did not include additional funding from the American Recovery and Reinvestment Act (ARRA) of 2009.

Mr. Edwards referred to the \$235 million in annual federal funding included in The Executive Budget and said the agency reported to the Budget Subcommittee on February 2, 2011, that future federal funding was uncertain under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) program. The uncertainty was attributable to several factors including the expiration of the most recent SAFETEA-LU bill in September 2009; the agency's receipt of federal funding via continuing resolutions since the bill expired; and, the most recent continuing resolution that was set to expire in March 2011. Fiscal staff noted that H.R. 662 was passed by Congress and signed by President Obama in March 2011 to extend the SAFETEA-LU program through federal FY 2011, an additional seven months.

During the Joint Subcommittee budget hearing on March 15, 2011, the agency reported that it had been conservative in its budgeting, assuming flat federal funding levels based upon past SAFETEA-LU revenue received. The Department indicated that the ongoing uncertainty of SAFETEA-LU could have an effect on projects as the agency did not know the specific timing, the level of funding, or the criteria under which the federal funding would be received. However, with that uncertainty in mind, the agency was moving forward with design so it would be able to proceed once federal funding was received.

Based upon the information provided, Fiscal staff agreed that the projected federal flat funding level appeared reasonable.

Mr. Edwards said concerning redirected revenues, Fiscal staff noted the Department used funding generated through property tax and car rental tax proceeds via Assembly Bill No. 595 of the 75th Session (2007) to partially fund its capital construction program. The Executive Budget was redirecting

property-tax-related proceeds of \$36.4 million over the biennium from the Highway Fund to the Nevada System of Higher Education (NSHE) to offset General Fund support of the University of Nevada, Reno (UNR) and the University of Nevada, Las Vegas (UNLV). In addition, The Executive Budget also recommended the redirection of approximately \$8 million in short-term car rental tax proceeds from the Highway Fund to the General Fund.

Mr. Edwards said that during its budget hearing on March 15, 2011, the Joint Subcommittee questioned the agency as to the redirection of property tax proceeds and short-term car rental tax proceeds. In response, the agency reported that the redirection of these proceeds would not affect its project delivery. The agency also reported that it initially planned to purchase a replacement aircraft and construct a Northern Nevada Traffic Incident Management Center during the next biennium. According to the agency, removal of these projects from the 2011-2013 budget, along with savings generated from the reduction in employee salaries, was sufficient to replace the redirected A.B. No. 595 of the 75th Session funding so that no capital projects were affected.

Based upon the information provided, Mr. Edwards said it appeared the Highway Fund balance would provide a sufficient level of cash to NDOT to meet its operating and capital construction needs.

SENATOR LESLIE MOVED TO APPROVE FEDERAL FUNDING LEVELS OF \$235 MILLION FOR EACH YEAR OF THE 2011-2013 BIENNIUM AS RECOMMENDED BY THE GOVERNOR IN BUDGET ACCOUNT (BA) 4660.

ASSEMBLYMAN HOGAN SECONDED THE MOTION.

THE MOTION CARRIED. (Assemblymen Conklin and Oceguela were not present for the vote.)

Mr. Edwards said the next major closing issue was a new building, known as the Roop Street Annex, decision unit Enhancement (E) 731. The Governor recommended Highway Funds of \$3,635,000 over the biennium for a new building to accommodate staff that would be displaced from the Landmark Building prior to Phase 3 of the Carson City bypass. The funding included relocating the Right of Way (ROW) appraisal section from current off-campus leased space, as well as reconfiguring existing parking and removing

two existing trailer units. The new building would be built on the existing NDOT complex and would contain 16,200 square feet, including a bathroom and conference room. The total cost represented a turnkey facility, including all furniture, HVAC, and electrical needs. The building would be occupied by 61 positions, consisting of Internal Audit, Intermodal Planning, and Information Services, including 48 personnel from the Landmark Building. The remaining relocations included the Right of Way appraisal section occupying leased space off-campus and the Archaeology employees occupying existing trailer units.

During the Joint Subcommittee budget hearing on March 15, 2011, the Department reported it had reviewed lease options and determined that constructing a new building would be more cost-effective than annual lease expenses of approximately \$200,000 per year. Based upon the discussion, the agency was asked to provide its analysis and lease evaluation to identify the estimated return on cost and to demonstrate the cost-effectiveness of constructing a new building.

Mr. Edwards said the agency had submitted its analysis for the proposed Roop Street Annex, which demonstrated the new building's return on cost. The agency considered escalating annual lease expenses starting at \$243,000 per year, which was based upon the new building's 16,200 square feet, at \$1.25 per square foot, with an escalator provision built in for inflation, as well as approximately \$46,909 for traveling between off-site locations and the NDOT campus. Using these factors, the estimated break-even point for the new building would be achieved in approximately 11 years.

Following a review of the estimate, the Fiscal Analysis Division noted the cost comparison was using the new building's square footage to determine annual ongoing lease expenses rather than the combined space requirements for existing staff. Staff also observed that the annual fixed costs might have been overstated in the analysis. In response, NDOT provided calculations to support space requirements for each of the sections to be relocated, which would require 12,625 square feet at full staff. In addition, the agency made adjustments to its annual fixed expenses which reduced them to approximately \$32,509 per year. Staff noted that multiple scenarios were provided by the agency to further review the cost-effectiveness of the building. One of those scenarios considered annual lease expenses starting at \$189,000 per year, which was based upon the actual square footage requirement for existing staff, at full staff. In addition, the adjusted fixed annual costs were factored in, and using those factors, the break-even point was achieved in approximately

14 years, because lower annual lease expenses would take a longer period of time to offset the cost of a new building.

Mr. Edwards commented that it should be noted that the agency reported its break-even analysis did not take into consideration that NDOT occupied its buildings for an extended period of time. According to the agency, a newly-constructed building would likely be used in excess of 50 years. Every year beyond the estimated break-even period of between 11 to 14 years would result in a savings to the state. The agency cited operational benefits and other savings associated with constructing a new building in lieu of leasing space, which included enhanced communication and operational efficiencies to be gained by relocating off-site staff to a centralized campus.

Mr. Edwards said, based upon the information provided by the agency, the analysis for the return on cost associated with building the Roop Street Annex appeared reasonable.

SENATOR CEGAVSKE MOVED TO APPROVE DECISION UNIT E731, INCLUDING HIGHWAY FUNDS OF APPROXIMATELY \$3,635,000 TO CONSTRUCT THE NEW ROOP STREET ANNEX IN BUDGET ACCOUNT (BA) 4660 AS RECOMMENDED BY THE GOVERNOR.

ASSEMBLYMAN HAMBRICK SECONDED THE MOTION.

THE MOTION CARRIED. (Assemblymen Conklin and Oceguela were not present for the vote.)

* * * * *

Mr. Edwards said the next major item to be considered was the reorganization of the Department of Public Safety's (DPS) Bicycle Safety program, decision units Enhancement (E) 500 and E901. The Governor recommended reorganization whereby the DPS Bicycle Safety Program, including an education and information officer and related funding, would be transferred to NDOT and combined with NDOT's Bicycle and Pedestrian Program. The Governor also recommended realigning transferred funding with NDOT's Bike Path Planning category via decision unit E500. Staff noted that Senate Bill (S.B.) 475 had been introduced to combine the DPS and NDOT bicycle and pedestrian programs.

Mr. Edwards said that each respective program shared the same funding source, which was a 50-cent fee added to every driver's license issued or renewed. Additionally, the DPS Bicycle Safety Program was closed on April 15, 2011. The Committee voted to approve the reorganization, whereby the DPS Bicycle Safety Program was transferred to NDOT to be combined with the NDOT Bicycle and Pedestrian Program as recommended by the Governor.

Based upon the Committee's prior action on April 15, 2011, to approve the transfer of the DPS Bicycle Safety Program to NDOT, Mr. Edwards said the Committee should approve decision units E901 and E500 as recommended by the Governor. The approval would be contingent upon passage of S.B. 475.

ASSEMBLYMAN BOBZIEN MOVED TO APPROVE THE TRANSFER OF THE DEPARTMENT OF PUBLIC SAFETY BICYCLE SAFETY PROGRAM TO THE DEPARTMENT OF TRANSPORTATION AS RECOMMENDED BY THE GOVERNOR IN DECISION UNIT E500 AND DECISION UNIT E901, BUDGET ACCOUNT 4660, CONTINGENT UPON THE PASSAGE OF S.B. 475.

SENATOR LESLIE SECONDED THE MOTION.

THE MOTION CARRIED. (Assemblyman Oceguera was not present for the vote.)

* * * * *

Mr. Edwards said the next two major closing issues represented technology investment requests contained in decision unit Enhancement (E) 586 and decision unit E595.

In decision unit E586, the Governor recommended Highway Funds of \$938,000 in fiscal year (FY) 2012 and \$1,092,235 in FY 2013 to fund the implementation of an Electronic Documentation System (EDS), which would provide a comprehensive project/contract management system that was fully integrated with all functional aspects of road and bridge construction. The purpose of EDS was to replace NDOT's existing manual or paper-based system that was used to administer and document construction contracts. The agency cited inefficiencies, human error, projects of increasing complexity and risk, and restrictions on staffing and related expenses as the primary reasons for transitioning to an electronic management system.

Mr. Edwards explained that funding over the biennium included \$1 million for commercial, off-the-shelf software as well as \$563,000 for programmer charges. There were other costs associated with this decision unit, including implementation consultants, new software, servers, 100 electronic field (e-field) book tablets, and broadband services and other licenses. The agency had reported that the project would take 12 to 18 months to complete, with ongoing support costs estimated to be \$102,157 annually. According to the documentation provided, a new system would pay for itself in just under three years, and it would realize an estimated five-year gain on the investment of approximately \$1.6 million.

The agency reported that this enhancement would automate the agency's methods for tracking contractor payments and contractor progress. The current process provided for the monitoring of projects by engineering crews in the field through the creation of manual notes in what they called "orange books." The engineers recorded project quantities and construction progress, and when they returned to the office, the manual notations were transcribed and entered into multiple systems to acquire a result for contractor payments. The automated system would eliminate errors and use safeguards to ensure proper items and quantities were being recorded. Mr. Edwards said the new system would also improve upon efficiencies in real-time reporting and processing contractor payments. The agency had reported that similar documentation systems were in use by transportation departments across the country. The new system, when combined with the Department's electronic bidding system, would fully integrate all functional aspects of construction from electronic bidding through final contractor payment. Mr. Edwards stated that based upon the information provided by the agency, the recommendation appeared reasonable.

SENATOR LESLIE MOVED TO APPROVE DECISION UNIT E586, INCLUDING HIGHWAY FUNDS OF \$986,000 IN FY 2012 AND \$1,092,235 IN FY 2013 TO FUND THE IMPLEMENTATION OF AN ELECTRONIC DOCUMENTATION SYSTEM AS RECOMMENDED BY THE GOVERNOR.

ASSEMBLYMAN HOGAN SECONDED THE MOTION.

THE MOTION CARRIED. (Senator Kieckhefer and Assemblyman Ocegüera were not present for the vote.)

Mr. Edwards said the next technology investment request was the Over-Dimensional Vehicle Permitting System (ODVPS) contained in decision unit Enhancement (E) 595. Decision unit E595 recommended federal funds of \$602,997 over the biennium to fund the replacement of the agency's ODVPS. The agency indicated the new system would better satisfy statutory requirements for the Department and the associated demands of processing permits for the commercial trucking industry. The Department had estimated it processes over 40,000 permits per year, currently being managed by five permitting agents.

The agency had reported limitations of the existing third-party vendor software making it difficult for permitting agents to process permits in a timely, accurate, and safe manner. Funding over the biennium included \$527,997 for programmer charges and \$75,000 for computer hardware and software. Highway Funds would be required for ongoing annual information systems support, which was anticipated to be absorbed by the agency in its base budget. However, Mr. Edwards said outside support could be required. The estimated costs for ongoing support escalated from a beginning point of \$35,360 in FY 2013 to \$70,720 in FY 2014, increasing to \$88,400 beginning in FY 2015.

The current permit software and related services had limited capabilities according to the investment request. The permit software was reported to be slow and labor-intensive and could not provide an effective 24 hour-per-day, 7 days-per-week, self-permitting capability to the commercial trucking industry. Mr. Edwards explained that the enhanced system would address these deficiencies, reduce annual costs, provide faster and more reliable permitting, and allow growth potential to meet future demand. The system would be implemented over approximately 24 months, would pay for itself in 5 years, and would provide savings in third-party vendor permit processing fees in subsequent years.

Mr. Edwards noted that the federal funding source for this project was the Commercial Vehicle Information Systems and Networks (CVISN) program. The agency had reported that CVISN is currently suspended at the federal level. The program was undergoing a federal audit originally scheduled to be completed at the end of calendar year 2010; however, that was not the case. The agency was now anticipating that the federal audit would conclude July 1, 2011.

The United States Department of Transportation (USDOT) was not reimbursing states for CVISN expenditures until the audit was completed. The agency indicated it had halted all CVISN-funded projects pending completion of the

audit and the receipt of confirmation that program expenditures would be reimbursed. The agency further indicated that should the audit not be completed by July 1, 2011, CVISN projects would not move forward until it had received clear guidance from the USDOT on how to proceed.

Mr. Edwards stated that during the Joint Subcommittee hearing on March 15, 2011, the agency testified that there were indications the federal CVISN program would be continued once the audit was completed. The Department reported that should the CVISN program not continue, federal funding would not be received, and the agency would not proceed with the ODVPS replacement.

SENATOR KIECKHEFER MOVED TO APPROVE DECISION UNIT E595, INCLUDING FEDERAL FUNDS OF \$602,997 OVER THE BIENNIUM TO REPLACE THE DEPARTMENT OF TRANSPORTATION'S OVER-DIMENSIONAL VEHICLE PERMITTING SYSTEM AS RECOMMENDED BY THE GOVERNOR.

ASSEMBLYMAN HARDY SECONDED THE MOTION.

Assemblyman Goicoechea said his concern was Assembly Bill (A.B.) 188. He acknowledged the bill related to triple trailers and was a little different from the subject at hand, but wondered how replacement of the permitting system would affect the bill's passage.

Robert Chisel, Assistant Director, Administration, Department of Transportation (NDOT), explained that decision unit E595 related to how NDOT issued the over-dimensional vehicle permits. He said approval of the decision unit would not affect A.B. 188.

Assemblyman Goicoechea said he was concerned because it appeared that if the triples were not allowed it would reduce expected revenues.

Mr. Chisel responded that was not correct because what was being proposed was a new system for issuing permits and receiving fees for over-dimensional, overweight, oversized vehicles and trucks, not the triples.

THE MOTION CARRIED. (Assemblymen Conklin and Ocegüera were not present for the vote.)

Mr. Edwards said the last major closing issue was airplane maintenance, decision unit Enhancement (E) 735. The Governor recommended Highway Funds of \$471,500 in fiscal year (FY) 2012 and \$1,415,000 in FY 2013 for maintenance and operating expenses for the Department's two aircraft. He explained that consideration of nonroutine airplane maintenance and repairs via an enhancement decision unit was consistent with a Letter of Intent issued during the 2007 Session.

The Department maintained and operated two aircraft, including a Cessna Citation, twin-engine jet purchased in 1988 and a Gulfstream Commander, twin-engine turboprop purchased in 1982. Funding over the biennium included approximately \$1.2 million for the Cessna Citation's nonroutine maintenance, including an engine overhaul that was completed every 3,500 flight hours, and \$248,000 for the Gulfstream Commander's nonroutine maintenance including an engine hot section inspection that was completed every 2,500 flight hours. In addition, there was \$246,000 for scheduled inspections of both aircraft. Funding for the Gulfstream Commander included \$237,000 for instrumentation and equipment replacement.

During the Agency's hearing on February 2, 2011, the Budget Subcommittee requested more information from the agency on the cost-effectiveness of maintaining and using each of the Department's two aircraft, including the use of the agency's aircraft for business travel, rather than the use of commercial airlines. Mr. Edwards said the agency responded and provided the benefits of operating two aircraft in lieu of commercial travel and also provided a cost analysis of each aircraft for FY 2010 through FY 2013, which demonstrated the cost-effectiveness of each aircraft.

Mr. Edwards explained that during the budget hearing of March 15, 2011, the Joint Subcommittee questioned the agency about the use of the aircraft, including the potential for contractors to use the planes and requested a copy of the Department's written policy concerning the use of the aircraft. The agency provided a copy of the policy concerning aircraft usage and reported that travel had been made available to nonstate personnel on a case-by-case basis. Persons authorized for travel in the state aircraft must have a direct benefit, such as consulting, training, or observation, and were required to travel with their sponsoring NDOT party. Staff also noted that the agency had reported fiscal year 2010 travel frequencies for flights, including nonstate employees flying with agency employees. Mr. Edwards said, based upon the 26 trips reported, the flights involving nonstate employees appeared to be for official state purposes.

Chairwoman Smith stated she would appreciate continuing to explore the policy regarding travel on the state plane to ensure the state was not exposed to any liability. She also wanted to ensure absolute parity regarding who was allowed to travel on the plane.

SENATOR LESLIE MOVED TO APPROVE DECISION UNIT E735, INCLUDING \$471,500 IN FY 2012 AND \$1,415,000 IN FY 2013 FOR NONROUTINE AIRPLANE MAINTENANCE AND REPAIRS AS RECOMMENDED BY THE GOVERNOR.

ASSEMBLYMAN BOBZIEN SECONDED THE MOTION.

THE MOTION CARRIED. (Assemblyman Conklin was not present for the vote.)

* * * * *

Mr. Edwards said that under other closing items, the first item was budget reductions associated with position eliminations. In decision unit Maintenance (M) 160, the Governor was recommending Highway Fund reductions of \$485,609 over the biennium associated with eliminating 5.51 full-time equivalents (FTEs). The positions were identified as noncritical and were included in the budgetary reductions approved by the Legislature during the 26th Special Session. Mr. Edwards stated that based upon the information provided by the agency, the recommendation appeared reasonable.

Mr. Edwards reviewed decision unit Enhancement (E) 275, which recommended Highway Funds of \$422,000 in fiscal year (FY) 2012 to fund radio equipment to enhance the ongoing operational management of the Nevada Shared Radio System (NSRS). He said based upon the information provided by the agency, the recommendation also appeared reasonable.

Decision unit E276 recommended additional Highway Funds of \$519,416 and federal funds of \$1,332,080 over the biennium to fund the continuation of activities covered under the CVISN (Commercial Vehicle Information Systems and Networks) federal grant program. Funding over the biennium included \$50,000 for Mobile Commercial Vehicle Recognition System development, \$1.2 million for capital outlay associated with Nevada Remote Trucking Monitoring Stations, and the remainder for other uses.

According to Mr. Edwards, during the Joint Subcommittee hearing on March 15, 2011, the agency testified that the project was in partnership with

the Department of Motor Vehicles (DMV) and the Department of Public Safety (DPS). The agency also reported that this project would promote commercial carrier safety and enable the Department to improve upon inspection and information processes for monitoring heavy weights and loads on Nevada's road systems, as well as ensuring proper commercial licensing was maintained.

Mr. Edwards said, as previously noted under decision unit E595, the CVISN program had been suspended pending a federal audit. While the agency anticipated the CVISN program would continue following the audit, should the program not continue, the agency had also reported that this item would not be implemented unless alternative federal funding could be identified.

Decision unit E710 recommended additional Highway Funds of \$5 million in each year of the biennium for routine replacement of existing equipment. This would include passenger vehicles, trucks, survey trucks, dump trucks, and self-propelled brooms. During the Joint Subcommittee hearing on March 15, 2011, the agency reported that it typically used equipment as long as possible after standards for replacement had been met before considering replacement of the equipment. In addition, the Department reported that it rebuilds its existing equipment when possible to reduce equipment requests.

Decision unit E711 recommended Highway Funds of \$702,000 over the biennium to fund the replacement of 10 percent of the Department's 800 MHz radios. Mr. Edwards said based upon the information provided by the agency, this recommendation appeared reasonable.

The next item was decision unit E720, recommending Highway Funds of \$3,695,700 and federal funds of \$2,967,000 over the biennium to purchase operational equipment, light and heavy construction and maintenance equipment, and vehicle-mounted equipment. Highway Funds were going to be used to purchase the operational equipment such as computers, office furniture, and laboratory test equipment, as well as light and heavy construction and maintenance equipment consisting of two 26-foot tow-plows that would be allocated to Reno and Elko.

The agency indicated that federal funding consisted of Congestion Mitigation and Air Quality (CMAQ) funds which would be used to purchase light and heavy construction and maintenance equipment, such as sweepers, as well as distribution tanks, dump boxes for sweeper waste, brine tanks, and a brine production system. The CMAQ program provided funding to state and local governments to support projects and programs and help improve air quality and

reduce traffic congestion. The agency reports it had obligated federal funding for this project and had received authorization by the federal Highway Administration to issue a Notice to Proceed (NTP) contingent upon approval of the 2011 Legislature.

Decision E730 recommended Highway Funds of \$12.4 million over the biennium to fund the planning, inspection, maintenance, new construction, alterations, and additions to department-owned facilities such as rest areas and maintenance stations. During the Joint Subcommittee hearing on March 15, 2011, the agency reported that the improvements primarily addressed general maintenance deficiencies in older buildings statewide.

Mr. Edwards also noted there were technical adjustments for this account where one-time payments had been eliminated, which were reflected in the closing adjustments for this budget account.

ASSEMBLYMAN HARDY MOVED TO APPROVE DECISION UNITS M160, E275, E276, E710, E711, E720, AND E730 AS RECOMMENDED BY THE GOVERNOR WITH STAFF TECHNICAL ADJUSTMENTS.

SENATOR KIECKHEFER SECONDED THE MOTION.

Senator Denis referred to decision unit E711, the radios, and asked whether NDOT was using two separate radio systems.

Robert Chisel, Assistant Director, Administration, Department of Transportation (NDOT) stated that NDOT had one radio system that most other agencies in the state used as well as some local agencies. Decision unit E711 specifically concerned the handheld radios and the mobiles that were in the plows that had to be replaced. Mr. Chisel said the radios got damaged in the plows from the vibrations, and after seven to ten years, they no longer worked. This decision unit was specifically for the user radios and not the system radios. Mr. Chisel said for system radios, NDOT allocated the cost with the other users.

In response to a question from Senator Denis, Mr. Chisel replied that NDOT had 234 snow plows and off-road vehicles in use.

THE MOTION CARRIED. (Assemblyman Conklin was not present for the vote.)

BUDGET CLOSED.

* * * * *

Chairwoman Smith closed the hearing on budget account (BA) 4660 and opened the hearing on BA 4663.

DEPARTMENT OF TRANSPORTATION
NDOT-BOND CONSTRUCTION (201-4663)
BUDGET PAGE NDOT-1

Scott Edwards, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB), stated there were no major closing issues for this account. Under other closing items, he noted that The Executive Budget did not include new bond proceeds for the next biennium. The agency had not requested, nor had the Governor recommended, the issuance of bonds for highway construction projects during the 2011-2013 biennium. Staff recommended approval of the Bond Construction account as recommended by the Governor.

ASSEMBLYMAN HARDY MOVED TO APPROVE THE BOND
CONSTRUCTION BUDGET ACCOUNT 4663 AS RECOMMENDED
BY THE GOVERNOR.

SENATOR LESLIE SECONDED THE MOTION.

THE MOTION CARRIED. (Assemblyman Conklin was not present
for the vote.)

BUDGET CLOSED.

* * * * *

ELECTED OFFICIALS
CONTROLLER-CONTROLLER'S OFFICE (101-1130)
BUDGET PAGE ELECTED-114

Scott Edwards, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB), presented the budget for the Controller's Office, budget account (BA) 1130.

Mr. Edwards said the major closing issue for this budget was staff eliminations. The Governor recommended in decision unit Enhancement (E) 690 the elimination of three positions in the Controller's Office, which would provide

General Fund savings of \$267,293 in fiscal year (FY) 2012 and \$270,983 in FY 2013. The positions recommended for elimination included the assistant controller, the American Recovery and Reinvestment Act (ARRA) reporting and accountability officer, and an accounting assistant 2 position. The assistant controller and the accounting assistant 2 positions were currently vacant as they were identified during the 26th Special Session as positions that could provide salary savings through the current fiscal year. The ARRA reporting and accountability officer position was established through a Contingency Fund allocation approved during FY 2010 by the Interim Finance Committee (IFC) and continued through a second Contingency Fund allocation in the current year. Mr. Edwards said the position was currently filled, and it would be considered a layoff.

The Budget Division had estimated a Public Employees Retirement System (PERS) buyout for this position of \$69,443 as well as a terminal leave payout of \$13,674. Funding for these amounts had been budgeted in the total General Fund one-shot appropriations included in The Executive Budget. Staff noted that the PERS estimate was based upon a 1.5 year buyout; however, the incumbent appeared to be eligible for a 5-year buyout based upon the continuous service date. Adjusting for a five-year PERS buyout would increase the state's obligation to an estimated \$209,166 pursuant to statute, or \$139,723 more than the estimated buyout included in the recommended one-shot appropriation. Confirmation had been provided by both the Budget Division and PERS concerning the five-year buyout requirement, and the Budget Division indicated there was sufficient funding included in the one-shot appropriation to absorb this increase.

Mr. Edwards said, regarding the accounting assistant recommended for elimination, the agency reported the position had been vacant since February 2010, and its functions had been absorbed by existing staff. Based upon the information provided by the agency, the recommended elimination of the accounting assistant appeared reasonable.

Fiscal staff noted that the agency had requested retention of the assistant controller and the ARRA reporting and accountability officer. During the full Committee budget hearings in February, the agency asked the money committees to consider adding back the assistant controller and the ARRA reporting and accountability officer positions. Based upon the full Committee budget hearings, the agency was asked to provide more information concerning the functions performed by the assistant controller and how those functions had been performed since the position was vacated.

The assistant controller position had been vacant since October of 2010. The responsibilities included, but were not necessarily limited to, serving as the public information officer, the legislative liaison, and the hearings officer for debt collection payments; performing oversight, development, and production of certain public reports; researching, analyzing, and developing legislation; performing oversight and administration of relevant Nevada Administrative Code (NAC); administering and organizing debt collection hearings; managing outside debt collectors and related contracts; and special projects. While vacant, the position's duties had been performed by the Controller, the former chief deputy controller, and the Controller's husband for certain functions including public information, legislative duties, and financial reporting.

Mr. Edwards said that typically when funding for a position was eliminated, the authority for a position was also eliminated. If the Committee chose to not retain the position, the Controller's Office had indicated a preference to eliminate the funding for the assistant controller, but leave the position in the agency's budget. In support of this action, the agency cited Assembly Bill (A.B.) 196 (R1), which appeared to allow the Controller to enter into an agreement to collect debt on behalf of county treasurers and other governmental entities, as well as enter into a reciprocal agreement with the federal government for the collection and offset of indebtedness. The agency had suggested that the expansion and scope of its debt collection efforts should result in additional funds for the state. If these funds grew as anticipated, the agency indicated that having the position included within the Unclassified Pay Bill would allow the Controller to approach the Interim Finance Committee (IFC) and restore the position using debt collection receipts in lieu of General Funds.

Mr. Edwards said that consistent with past practice, the Governor recommended eliminating both the funding and the position from the Controller's Office budget. Apart from its unclassified status and the potential for alternative funding for this position, no special circumstances had been identified that would require an exception to past practice.

For the ARRA reporting and accountability officer position, the agency was also asked to provide information concerning the functions performed by this position and how those functions differed from the ARRA positions included in the Governor's Office. The agency reported that the position was created within the Office of the State Controller with the intent of ensuring all funds received by the State of Nevada were accounted for properly and accurately. The position provided independent oversight for approximately \$3.3 billion in stimulus funds, including \$2 billion received in prior years, \$900 million received in FY 2011, and another \$400 million anticipated by June 30, 2014. According

to the agency, quarterly reporting required under the stimulus act would continue through June 30, 2014.

Mr. Edwards said to explain the differences in the functions performed by the Controller's Office ARRA position and those ARRA positions in the Governor's Office, the agency reported that it performed specific accounting functions to ensure that ARRA reporting was correct. The position did not duplicate the efforts of the Governor's Office.

According to agency testimony, the Governor's Office staff had been focused upon building the state's ARRA website, which was mandated by the stimulus act. Additionally, the Governor's staff worked with state agencies on related reporting for website publication purposes. The Controller's Office also indicated that its position provided guidance to the Office of the Governor concerning proper procedures for ARRA-specific grant accounting, such as prevailing wage, certified payroll submission, and subrecipient reporting.

According to the agency, Nevada received approximately 54 percent of its funding from federal sources. Beyond ARRA functions, the agency reported that this position worked with all federally funded state agencies to ensure that the Federal Financial Accountability and Transparency Act (FFATA) reporting requirements, implemented in October 2010, were met.

According to the agency, if the ARRA reporting and accountability officer position was not funded beyond June 30, 2011, the activities performed via the Controller's Office would cease as the agency did not have the ability to assign these tasks to other staff members.

Mr. Edwards presented the following options based upon information provided by the agency:

1. Approve decision unit E690, with reduced General Fund of \$267,293 in FY 2012 and \$270,983 in FY 2013, including the elimination of the vacant assistant controller, the vacant accounting assistant 2, and the ARRA reporting and accountability officer, resulting in one layoff, as recommended by the Governor.
2. Retain certain positions recommended by the Governor for elimination, with General Funds to be added back of \$212,775 over the 2011-2013 biennium for the assistant controller position and \$241,479 over the 2011-2013 biennium for the ARRA reporting and accountability officer position.

3. Not approve decision unit E690, which would add back General Funds of \$267,293 in FY 2012 and \$270,983 in FY 2013, and retain the assistant controller, ARRA reporting and accountability officer, and accounting assistant 2.

ASSEMBLYMAN HAMBRICK MOVED TO APPROVE
DECISION UNIT E690 IN BUDGET ACCOUNT 1130 AS
RECOMMENDED BY THE GOVERNOR.

SENATOR RHOADS SECONDED THE MOTION.

THE MOTION CARRIED. (Senator Horsford was not present for the vote.)

* * * * *

Chairwoman Smith asked the Joint Committee to note the remarks at the end of option number 3, and said the Committee might wish to leave the assistant controller position in the Unclassified Pay Bill. She said she would entertain some discussion regarding that possibility.

ASSEMBLYMAN BOBZIEN MOVED TO LEAVE THE ASSISTANT
CONTROLLER POSITION IN THE UNCLASSIFIED PAY BILL
ALLOWING THE CONTROLLER TO APPROACH THE INTERIM
FINANCE COMMITTEE TO REQUEST REESTABLISHING THE
POSITION WITHIN ITS BUDGET ACCOUNT.

SENATOR LESLIE SECONDED THE MOTION.

Assemblyman Hambrick said he did not have a problem with the motion but wondered whether in two years the position would still be necessary because of the elimination of ARRA funding.

Chairwoman Smith requested that the Controller come to the table to testify.

Kim Wallin, State Controller, said the agency was requesting to retain the position of assistant controller, which was an unclassified position, with the caveat that it not be funded. In the event of the passage of A.B. 196 (R1) and the increase of the Controller's Office workload by collecting debts for cities, counties, and the courts, the agency would appear before the IFC for permission to fund the position using debt collection money, not General Fund. Ms. Wallin reiterated that Option 1 eliminated the ARRA position, the assistant controller,

and the accounting assistant 2. Option 3 kept the assistant controller position, but did not fund it.

Chairwoman Smith commented that the Joint Committee had voted for option 1 for the elimination of the funding for the positions and now the motion being considered was to retain the position of assistant controller, but eliminate the funding.

THE MOTION CARRIED. (Senators Cegavske and Kieckhefer voted no.) (Senator Horsford was not present for the vote.)

* * * * *

Mr. Edwards said the next series of items was entitled "other items not included in The Executive Budget."

The first item represented the Debt Collection and Recovery System (DCARS) enhancement. Mr. Edwards said the agency requested that the Committees consider adding General Funds of \$200,000 in fiscal year (FY) 2012 for an enhancement to the Controller's existing DCARS system.

Fiscal staff noted that the 2009 Legislature approved funding for developing DCARS initially, which used an XBRL (eXtensible Business Reporting Language) solution which managed the information collection, collation, and workflow process related to the state's debt collection efforts. While initial development of DCARS contained automated processes within the Controller's office, state agencies continued to submit debt information manually via spreadsheets. According to the agency, the proposed enhancement included in this request would provide the capability to automatically extract debt collection information or debt account information directly from various state agencies and transfer it directly into the DCARS system.

The goal of DCARS, according to the agency, was to capture the debt at the earliest opportunity when the probability of collection was at its peak. The agency had testified that automatic data extraction meant that debt collection could start sooner. By collecting debt 30 days sooner, the chances of debt collection improved by 12.5 percent. The Controller testified that this enhancement would also improve the agency's ability to use debt offset efforts. This enhancement included, but was not limited to, interfacing with DAWN and/or Advantage to further automate reporting processes; add more predefined reports; and integrate reporting capabilities with state agencies such as the Secretary of State, the Department of Motor Vehicles (DMV), and the

Department of Taxation. Mr. Edwards remarked that the project would require six to nine months to implement. The agency had reported the benefits of this enhancement included reduced labor costs and significantly higher data quality. The agency had provided a cost/benefit analysis indicating that the value of the benefits would offset the total investment in approximately 17 months because of higher collections and productivity savings.

During the budget hearing in February 2011, the Assembly Committee on Ways and Means questioned whether or not funding in the Debt Recovery Account, BA 1140, could be used for the agency's requests that were not recommended in The Executive Budget. Mr. Edwards noted that money in the Debt Recovery account could only be used to support the debt collection efforts of the State Controller pursuant to statute. Mr. Edwards said this enhancement would appear to satisfy that requirement, and the agency had reported that the funds in the Debt Recovery account as established could be used to fund the DCARS enhancement, as requested. Funding for an enhancement to DCARS was not recommended in The Executive Budget.

Mr. Edwards informed the Joint Committee that it might wish to consider the following options:

1. Approve an enhancement to the Debt Collection and Recovery System (DCARS) as requested by the State Controller, with a General Fund appropriation of \$200,000.
2. Approve an enhancement to the Debt Collection and Recovery System (DCARS) as requested by the State Controller, with authorized transfers from the Debt Recovery Account (101-1140), subject to sufficient available funding pursuant to *Nevada Revised Statutes* (NRS) 353C.226.
3. Do not approve an enhancement to the Debt Collection and Recovery System as requested by the State Controller.

Mr. Edwards noted that if the Committee was considering option two, the Debt Recovery Account had not been considered yet, but projections for the next biennium showed reserves of approximately \$280,000 in the first year of the biennium and approximately \$395,000 by the second year of the biennium. If the Joint Committee chose that option, there appeared to be sufficient funding available.

ASSEMBLYMAN CONKLIN MOVED TO APPROVE AN
ENHANCEMENT TO THE DEBT COLLECTION AND RECOVERY
SYSTEM AS REQUESTED BY THE STATE CONTROLLER, WITH
AUTHORIZED TRANSFERS FROM THE DEBT RECOVERY

BUDGET ACCOUNT, 101-1140, SUBJECT TO SUFFICIENT
AVAILABLE FUNDING PURSUANT TO NRS 353C.226.

SENATOR LESLIE SECONDED THE MOTION.

THE MOTION CARRIED. (Senators Cegavske, Kieckhefer, and
Rhoads, and Assemblymen Goicoechea, Grady, Hambrick, Hardy,
Hickey and Kirner voted no.)

Mr. Edwards said the second item for consideration was the Single Audit Reporting, XBRL technology solution. The agency was requesting the addition General Funds of \$50,000 in fiscal year (FY) 2012 to implement an XBRL technology solution for Single Audit Reporting. The Single Audit Report captured expenditures associated with federal funds awarded to the State of Nevada and was used by the federal government to review levels of accountability applied to federally funded programs. Mr. Edwards said the project would require three months to develop and implement.

The Controller's Office reported that summary Single Audit Reporting Form (SARF) information was compiled by the Controller's Office from data provided by state agencies that received federal assistance. In FY 2010, there were over 700 active federal grants to state agencies. The agency had testified that this solution would enable the Controller's Office to automatically pull information from the state's accounting system and eliminate most of the data entry currently required by state agencies. According to the agency, compliance with single audit reporting requirements was important to Nevada's continued status as a low-risk grantee for federal funds, which according to the Controller's Office, made up 49 percent of the state's expenditures in FY 2009 and 54 percent of the state's expenditures in FY 2010.

Referring to the need for this enhancement, Mr. Edwards said the agency reported that a recent audit performed by the state's outside auditor, Kafoury, Armstrong, & Co., presented findings with numerous issues concerning the preparation of SARFs, as well as controlled efficiencies in the reporting process. Specifically, it was noted that certain reports did not balance, nor did they reconcile with the state's accounting system. Although the state would continue to incur costs associated with an outside auditor performing single audits, if there were ongoing control deficiencies and issues with state agencies preparing SARFs, the state would incur increased costs resulting from the outside auditor's obligation to balance and reconcile the reports. If the accuracy of SARFs and related reporting was improved, then cost to the state might be limited to auditing only.

According to the agency, funding in the Debt Recovery Account could not be used to fund the Single Audit Reporting enhancement as requested. Staff concurred with this assessment.

Funding for a Single Audit Reporting XBRL Technology Solution was not recommended in The Executive Budget.

Senator Denis said comments had been made that if the Single Audit Reporting system was not implemented, there was a possibility that issues on an audit could cost more in the long run. He wondered whether there was more information regarding that possibility.

Mr. Edwards stated that information provided by the agency indicated that in its most recent audit, the outside auditor identified issues and deficiencies for the reporting and control in the current SARF reporting process and preparation process that was conducted for FY 2010. When those types of issues arose, it was Mr. Edwards' understanding that the outside auditor was obligated to reconcile those issues, which incurred additional time and additional expense to the state for the outside auditor to perform additional services. To the extent that was an isolated incident, the possibility existed that if those deficiencies were not corrected moving forward, then the state could incur additional costs, and by correcting that to the maximum extent possible, the state may not incur additional costs.

Senator Denis said he had been wondering what that cost would be, because spending an extra \$200,000 on audit issue might make the Single Audit Report worth it, but if the cost was not going to be that much, it might be wise to delay the implementation.

Kim Wallin, State Controller, said her understanding was that Kafoury, Armstrong & Co. had already notified the Controller's Office that for this coming year's Single Audit the firm was adding another \$40,000 to the cost because of the issues encountered last year. Ms. Wallin explained that state agencies had reduced financial staff in the budget cuts, and the Controller's Office was not receiving the good quality reporting that it once had. She maintained that was the reason the process needed to be automated. Also, the auditors had requested analytical work on the reporting that was done in the Controller's office.

Senator Denis asked if the automated system had been in place now, whether that would have saved the state the \$40,000 it was going to be charged.

Ms. Wallin replied that it would have.

In response to a question from Assemblyman Hambrick, Mr. Edwards stated that the \$50,000 represented the cost to implement the XBRL technology solution, but the \$40,000 was for additional audit charges and was separate from the \$50,000.

Mary Keating, Acting Chief Deputy Controller, Controller's Office, clarified for Assemblyman Hambrick that the contract that the state had with Kafoury, Armstrong & Co. was for the regular audit and the single audit as required by the federal government. The audit was funded by the Budget Division in budget account 1320 and then transferred to the Legislative Counsel Bureau with its funding. Ms. Keating said it was her understanding that during this past six months, the auditor had requested an additional \$40,000 to handle the additional issues that had arisen with the single audit. She said there were three more years on the contract with Kafoury, Armstrong & Co. The agency was convinced that unless a way to extrapolate the data could be found so that it was done within the agency instead of paying the auditor's billing rate, the agency would be charged again for additional services.

Chairwoman Smith said for clarification that the \$40,000 and the \$50,000 were unrelated as far as the budgets were concerned, but Ms. Keating's opinion was that spending \$50,000 could mitigate spending \$40,000 or more for the cost of the audit.

Ms. Keating said Chairwoman Smith's explanation was correct, those items were not in the same budget, but they were related issues.

Senator Horsford said he would make the motion to approve. He said he knew it was difficult, but believed this was one of those process problems where if you did not pay for it, you ended up paying more.

SENATOR HORSFORD MOVED TO APPROVE GENERAL FUNDS OF
\$50,000 IN FY 2012 FOR A SINGLE AUDIT REPORTING XBRL
TECHNOLOGY SOLUTION IN BUDGET ACCOUNT 1130.

ASSEMBLYMAN AIZLEY SECONDED THE MOTION.

THE MOTION CARRIED. (Senators Cegavske, Kieckhefer, and
Rhoads voted no.)

* * * * *

Mr. Edwards said the next issue was the addition of a legal research assistant. The agency asked the Committees to consider adding General Funds in the amount of \$59,787 in fiscal year (FY) 2012 and \$60,060 in FY 2013 to add one new legal research assistant. The agency cited, in support of this request, Assembly Bill No. 87 of the 75th Session, which provided comprehensive debt collection tools for the Controller, resulting in additional legal research in court-related workloads.

The legal researcher position would provide debt accounting management services for the collection of debts and the tracking of legal matters related to those debts. Mr. Edwards said the position would closely monitor debt collection files to ensure legal documents relating to debt collection were prepared, filed, renewed, and tracked. Further, the position would file judgments, renew judgments, file liens and levies, and prepare proof of claims for bankruptcies. Mr. Edwards explained that funding covered the position and related operating expenses, as well as computer hardware and software.

Mr. Edwards said the agency had reported that some of the functions to be performed by this position were currently being performed by the Controller. Based upon a discussion with the agency, it also appeared that the Attorney General's office had provided legal support and guidance to the Controller and its debt collection efforts. However, the agency indicated that as the debt collection workload increased, the Attorney General's Office would continue to provide that assistance and guidance, but it would not perform legal paperwork on the Controller's behalf, such as preparing liens, judgments, and other documents. Therefore, the agency's request was originally prepared for a legal research assistant to address that workload and its related functions.

Fiscal staff noted that based upon discussion with the agency and the evolving needs of the Controller's Office debt collection efforts, there appeared to be uncertainty as to the actual need for this type of position because of the potential passage of A.B. 196 (R1) in the current session. The agency indicated the demands to be placed upon the agency by passage of that measure could dictate the need for a different classification in lieu of a legal research assistant. The examples provided included an accounting assistant or a management analyst.

Mr. Edwards said it might be appropriate to delay action on the request until more certainty could be obtained about the work to be performed in the actual classification required. Because this would be a classified position, the

Controller could approach the IFC to request the position when the workload and anticipated funding supported additional staff.

Mr. Edwards noted that money in the Debt Recovery Account could only be used to support the debt collections efforts of the State Controller pursuant to statute. The enhancement would appear to satisfy that requirement as long as the position's functions supported debt collection efforts. Mr. Edwards said that based upon revised revenue projections for the Debt Recovery Account, budget account (BA) 1140, as well as the agency's request for the DCARS enhancement, it was not known whether sufficient revenue would exist over the 2011-2013 biennium to fund the legal research assistant position.

Funding for a legal research assistant was not recommended in The Executive Budget. Mr. Edwards said based upon information provided by the Controller's Office, the Committee might wish to consider the following options:

1. Approve the addition of a legal research assistant and related computer hardware and software as requested by the State Controller, with General Fund appropriations of \$59,787 in FY 2012 and \$60,060 in FY 2013.
2. Approve the additions of a legal research assistant and related computer hardware and software as requested by the State Controller with transfers from the Debt Recovery Account of \$59,787 in FY 2012 and \$60,060 in FY 2013, subject to sufficient available funding pursuant to statute.
3. Do not approve the addition of a legal research assistant and related computer hardware and software as requested by the State Controller. If the Committee approved this option, the agency could approach the IFC during the interim and provide documentation concerning the need and available revenue in the Debt Recovery Account to support the position.

SENATOR HORSFORD MOVED TO NOT APPROVE THE ADDITION OF A LEGAL RESEARCH ASSISTANT AND RELATED COMPUTER HARDWARE AND SOFTWARE, AS REQUESTED BY THE STATE CONTROLLER. THE AGENCY CAN APPROACH THE INTERIM FINANCE COMMITTEE DURING THE INTERIM AND PROVIDE DOCUMENTATION CONCERNING THE NEED AND AVAILABLE REVENUE IN THE DEBT RECOVERY ACCOUNT TO SUPPORT THE POSITION.

ASSEMBLYMAN CONKLIN SECONDED THE MOTION.

THE MOTION CARRIED.

Mr. Edwards said that under other closing items for this budget account, decision unit Enhancement (E) 710 recommended General Funds of \$20,433 over the biennium for replacement computer hardware and software. The computer equipment was being replaced according to standard schedules, and the request appeared reasonable to staff.

The next item was decision unit E711 recommending General Funds of \$13,920 over the biennium for replacement printers. This recommendation appeared reasonable to staff.

Decision unit E713 recommended General Funds of \$17,168 in fiscal year (FY) 2013 to replace batteries in the Uninterruptible Power Supply (UPS) system for the statewide financial system. This recommendation appeared reasonable to staff.

Mr. Edwards said, in addition, there were technical adjustments. Staff was seeking the authority to make adjustments in this account based upon the Legislature's actions concerning Cultural Affairs' budget accounts and the related impact on the State's Micrographics Imaging Program. The Executive Budget proposed to eliminate the State Micrographics Imaging Program; however, the Budget Division subsequently submitted a series of budget amendments that restored a downsized version of the program within Archives and Records. Although a budget amendment was not submitted relative to this account, the Fiscal Analysis Division, working in conjunction with the Budget Division, had determined that related funding of \$14,304 should be removed from the Controller's Office budget account in each year of the biennium.

ASSEMBLYMAN HARDY MOVED TO APPROVE DECISION UNITS E710, E711, AND E713, AS RECOMMENDED BY THE GOVERNOR, WITH STAFF AUTHORITY TO COMPLETE TECHNICAL ADJUSTMENTS AS NOTED.

SENATOR KIECKHEFER SECONDED THE MOTION.

THE MOTION CARRIED. (Assemblywoman Mastroluca was not present for the vote.)

* * * * *

ELECTED OFFICIALS
CONTROLLER-DEBT RECOVERY ACCOUNT (101-1140)
BUDGET PAGE ELECTED-120

Scott Edwards, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB), said the final account for the Controller's Office was the Debt Recovery Account.

Mr. Edwards noted there were no major closing issues associated with this account. The Governor recommended, via The Executive Budget, reserves of \$479,822 in fiscal year (FY) 2012 and \$944,822 in FY 2013, with the projected State Share of Collections totaling \$350,000 in FY 2012 and \$400,000 in FY 2013.

Staff had worked with both the Budget Division and the Controller's Office to update the estimated balance forward amount from the current fiscal year to the first year of the next biennium, which was then revised to \$166,624. In addition, projected revenues had been revised including \$41,671 in Licenses and Fees, \$72,000 in the State Share of Collections, and \$500 in interest income for each year of the biennium. As a result, the projected reserve was \$280,795 in FY 2012 and \$394,966 in FY 2013. According to the agency, the revised estimates reflected realistic expectations that were generally consistent with current year activity. Fiscal staff noted that technical adjustments had been completed for the revised estimates, which were reflected in the closing adjustments for this budget account.

SENATOR RHOADS MOVED TO APPROVE BUDGET ACCOUNT 1140, THE DEBT RECOVERY ACCOUNT, AS RECOMMENDED BY THE GOVERNOR WITH TECHNICAL ADJUSTMENTS AS NOTED.

ASSEMBLYMAN HARDY SECONDED THE MOTION.

THE MOTION CARRIED.

* * * * *

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
PERS-PUBLIC EMPLOYEES' RETIREMENT SYSTEM (101-4821)
BUDGET PAGE PERS-1

Mark Krmpotic, Senate Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB), reviewed the Public Employees' Retirement System (PERS) budget account.

Mr. Krmpotic said there were a couple of issues for consideration by the Committee. The first issue dealt with replacement servers and computer hardware and software in decision unit Enhancement (E) 275.

The PERS budget for the next biennium included funding of approximately \$1.9 million each year, representing monthly administrative per capita fees to replace servers, computer hardware, and software in accordance with the PERS replacement schedule. The request included the replacement of 10 of the system's 81 servers each year at a cost of \$68,400 per year. The budget also included funding to replace and upgrade software to maintain ongoing vendor support. Funding of approximately \$1.8 million each year was included in the budget for software upgrades and replacements.

Mr. Krmpotic noted that funding included in this decision unit also provided for software and hardware to keep the PERS disaster recovery site in sync with the main office to allow for proper replication of data.

During its budget presentation, PERS representatives indicated that its servers were currently operating on Windows 2000. It was PERS intent, if this request was approved, to upgrade to Windows 2008. Mr. Krmpotic said PERS had indicated it needed to focus on security with respect to this request because it maintains social security numbers and bank account numbers on its system. Also, PERS representatives indicated that upgrades of its existing software were required to maintain compatibility with the updated version of Windows.

ASSEMBLYMAN OCEGUERA MOVED TO APPROVE DECISION
UNIT E275 TO PROVIDE FUNDING OF \$1.9 MILLION EACH YEAR
OF THE BIENNIUM TO REPLACE SERVERS AND COMPUTER
HARDWARE AND COMPUTER SOFTWARE IN BUDGET
ACCOUNT 4821.

SENATOR DENIS SECONDED THE MOTION.

THE MOTION CARRIED.

Mr. Krmpotic said the other closing item was nonclassified salary adjustments. The Executive Budget included \$44,486 in fiscal year (FY) 2012 and \$80,117 in FY 2013 to add a tenth step to the system's nonclassified pay schedule. It included cost adjustments associated with salary step increases for nonclassified staff that had not reached the top of their pay level. This included seven positions overall, the Executive Officer, Operations Officer, Investment Officer, Assistant Investment Officer, Manager of Information Systems, Administrative Analyst, and the Administrative Services Coordinator.

Mr. Krmpotic said the Committee received testimony previously from the Executive Officer that it was the intent of PERS to remain consistent with changes in employee compensation as recommended for Executive Branch employees. Decision unit Enhancement (E) 671 in this budget account provided for the suspension of merit pay for classified positions in PERS. Mr. Krmpotic explained that if the Committee approved the recommendation to suspend merit pay for the upcoming biennium, decision unit E849 should be removed to remain consistent with this decision.

Mr. Krmpotic said if the Committee did not approve the Governor's recommendation to suspend merit pay, the Committee might wish to approve funding to provide for nonclassified salary adjustments in decision unit E849. If the Committee elected to go along with the Governor's recommendation to suspend merit pay, staff would recommend that this decision unit be removed from the budget. If another decision was reached by the Committee, it would be up to the Committee whether it wanted to allow for pay increases for the nonclassified positions within PERS.

Chairwoman Smith noted this motion would give staff the authority to adjust accordingly based on decision units that were yet to be closed.

SENATOR HORSFORD MOVED TO APPROVE GIVING FISCAL
STAFF AUTHORITY TO MAKE TECHNICAL ADJUSTMENTS TO
THE NONCLASSIFIED PAY SCHEDULE IN
BUDGET ACCOUNT 4821.

ASSEMBLYMAN HOGAN SECONDED THE MOTION.

Assemblywoman Carlton asked whether a new pay step was being created with the motion.

Mr. Krmpotic explained the positions were nonclassified positions, but the pay schedule was based on steps as though they were classified positions.

Currently, there were ten steps in the classified salary scale. Mr. Krmpotic said this recommendation would simply increase positions up to a maximum of ten steps in accordance with the pay increases that classified positions would receive if they were to receive merit increases.

Assemblywoman Carlton commented that she did not understand with all the other cuts why an agency was requesting the addition of another step.

Assemblyman Goicoechea asked whether this item needed to be held until after a decision was made by the Committee regarding the merit pay for classified positions.

Chairwoman Smith said the Committee should make the decision to allow Fiscal staff to adjust this account according to the manner in which the merit pay issue was decided, as had been done in other budgets.

THE MOTION CARRIED. (Senator Kieckhefer was not present for the vote.)

BUDGET CLOSED.

* * * * *

PUBLIC EMPLOYEES' BENEFITS PROGRAM
PEBP-PUBLIC EMPLOYEES' BENEFITS PROGRAM (625-1338)
BUDGET PAGE PEBP-1

Laura Freed, Senior Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB), reviewed the Public Employees' Benefits Program (PEBP).

Ms. Freed explained that the first major closing issue was the cost shifts to the participants from budget reductions. Two decision units accounted for most of the health insurance budget reductions: decision unit Enhancement (E) 660 and decision unit E661. The first, decision unit E660, made changes to the plan design, and E661 reduced the subsidization percentage of the total premium for both employees and retirees and blended the HMO rates between the north and the south.

Decision unit E660 and decision unit E661 savings were shown in this budget account as reductions in the amount of state subsidies that went into the Active Employee Group Insurance (AEGIS) and Retired Employee Group Insurance (REGI) accounts. The actual savings were realized in all budget accounts that paid the AEGIS and REGI every month.

Ms. Freed said the Preferred Provider Organization (PPO) plan that employees were familiar with would be replaced by a Consumer-Driven Health Plan, sometimes known as a High Deductible Health Plan. The HMO (Health Maintenance Organization) would continue to exist, and the rates would be blended between the north and the south. Deductibles would increase to \$1,900 for an individual and \$3,800 for a family. Ms. Freed said currently the deductibles were \$800 for an individual and \$1,600 for a family. Coinsurance would pay 75 percent after the deductible was met instead of the current 80 percent.

Ms. Freed said spouses and domestic partners eligible for other employer-based coverage would be removed from PEBP coverage. The out-of-pocket maximum would be \$3,900 for an individual and \$7,800 for a family. The current out-of-pocket maximum was \$3,700 for an individual and \$7,400 for a family.

According to Ms. Freed, one of the significant changes that would be instituted was a Health Savings Account (HSA) for active employees and a Health Reimbursement Arrangement (HRA) for the non-Medicare retirees as well as the Medicare retirees. Ms. Freed said in the Health Savings Account for the actives, PEBP would contribute \$700 per participant, plus an additional \$200 for each dependent up to three dependents, making the maximum HSA contribution \$1,300.

With respect to the Health Reimbursement Arrangement (HRA), the contribution would also be \$700 per retiree, plus the additional \$200 per dependent, for the non-Medicare retirees.

Ms. Freed explained that the difference between an HSA and an HRA was that the HSA can operate like a savings account and contributions belonged to the participant. The contributions were portable and could accrue. The HRA money belonged to PEBP, and the PEBP Board would set the rollover policy for the HRA contributions every year.

There were some other coverage changes: for instance, the deductible for dental coverage would go to \$100 per individual, \$300 per family. Currently, the deductible was \$50 for an individual and \$150 for a family. The maximum yearly benefit for dental would be reduced to \$1,000 from the current \$1,500, and the coinsurance coverage would be 75 percent rather than the current 80 percent for basic services.

Ms. Freed noted that vision coverage would be eliminated, except for the annual examination, and lab tests performed at hospitals would be eliminated in most cases.

Speaking specifically to the Medicare retirees' plan design change, Ms. Freed said the Medicare retirees would no longer be PEBP participants. Medicare retirees would be moved to the individual Medicare market. A person would have to be eligible for both Medicare A and B to move, and if a person was not eligible for Medicare part A, that person would remain on PEBP at the non-Medicare retiree rates. Ms. Freed said PEBP would provide the primary insured a premium rate credit equal to the amount of the part B premium which was set yearly by the Centers for Medicare and Medicaid Services (CMS).

Medicare retirees with non-Medicare dependents could move to the individual Medicare market exchange while their dependents stayed on PEBP at the unsubsidized survivor rate. They could also remain on PEBP at the non-Medicare retiree rates for themselves and their dependents, or they could move to the individual Medicare exchange and remove their dependents from PEBP coverage.

Ms. Freed noted that the contribution by PEBP for the HSA for actives and the HRA for non-Medicare retirees was \$700 per participant, per year. For the Medicare retirees, PEBP would provide \$10 per month per year of service to each Medicare retiree. Ms. Freed said there was five years of service minimum to receive the subsidy, which would total \$50 per month and a maximum subsidy of \$10 per month for 20 years of service equaling \$200 per month. According to Ms. Freed, the Medicare retirees could spend the HRA account funds in any way they chose, on any plan of their choosing, whether a Medigap plan or Medicare Advantage plan. During the Joint Subcommittee budget hearing, PEBP testified that there would be multiple plan choices in every zip code where Medicare retirees lived. Medicare retirees could continue to receive their dental coverage through PEBP if they wished.

The basic life insurance coverage was reduced by the PEBP Board. Currently, active employees had a \$20,000 policy that would drop to \$10,000, and retirees had a \$10,000 policy that would drop to \$5,000. Accidental death and dismemberment coverage would also be eliminated.

Ms. Freed noted that long-term disability would continue as it was currently.

Referring to decision unit E661, Ms. Freed said the total subsidy reduction was \$85.2 million. The plan design changes accounted for \$54.5 million in subsidy

savings, and the remaining savings of \$30.7 million was made up by changes in the subsidization policy. Part of the subsidization policy savings were because of one statewide set of HMO rates, rather than a separate rate table for northern and southern Nevada, and the other part came from adjusting the subsidy with the premium.

Ms. Freed noted that the subsidy percentages were higher than expected earlier because the claims experience in FY 2011 was very good, and there had been some excess reserve. The plan design changes in The Executive Budget also had the effect of bringing lower rates from the actuary than expected.

Assembly Bill (A.B.) 562, which was currently in the Committee on Ways and Means, would make the statutory changes required to move Medicare retirees to the individual Medicare market exchange.

Assembly Bill (A.B.) 563 was the so-called "rates bill" that specified the state's contribution. The rates for the retirees currently in the rates bill covered both the Medicare and non-Medicare contributions by PEBP.

Ms. Freed said A.B. 553, which was also in the Committee on Ways and Means, changed the plan design even further. The bill was requested by the Governor and would freeze the years of service received by a retiree at the number of years of service that an active employee had on June 30, 2012.

Ms. Freed said the idea was to give the active employees an incentive to save in their Health Savings Accounts (HSA) rather than relying on PEBP's contribution for their retirement health care.

Ms. Freed pointed out that the 2009 Legislature approved changing *Nevada Revised Statutes* (NRS) 287.046 to specify that new hires would be required to have 15 years of service to receive any retiree health insurance subsidy. If A.B. 553 were passed there would be this small slice of future retirees, which was those individuals hired between January 1, 2010, and June 30, 2012, who would be required to have 15 years of service. Everyone hired after June 30, 2012, would not receive a subsidy and would have to rely entirely on the HSA.

Ms. Freed noted that the PEBP Board considered a bill draft request (BDR) that was much like A.B. 553 at its September 2010 meeting but did not choose to forward it to the Legislature. There was no fiscal note requested for A.B. 553, although it appeared it would provide some savings; however, the savings would be offset by the PEBP's contributions for HSAs and HRAs.

Chair Horsford said he wanted to provide an opportunity for brief public comment on this item.

Jim Richardson, Nevada Faculty Alliance, said he was concerned that there were a number of decisions implied that had yet to be considered in the full hearing. The freezing of current years of service for employees was of particular concern to Mr. Richardson. He said people were hired with an understanding that they would receive retirement benefits. Many of those employees were in mid-career and would not have time to accumulate savings in the HSA, even if they could afford to do so, given the salary cuts that were anticipated.

Mr. Richardson said the part-time employee decision was also of grave concern. That decision affected mostly Higher Education and Health and Human Services agencies that made use of part-time people who often were willing to work for less money to get some health insurance coverage. He believed this decision would cost the state more money in the long run.

Martin Bibb, Executive Director, Retired Public Employees of Nevada (RPEN) said he agreed with the things that Jim Richardson had just said but would like to make a few other points. He noted that some time ago, as was alluded to in the presentation, the underutilization in this plan led to approximately \$26 million that was available, and as a result, the PEBP restored some of the benefits. Specifically, PEBP provided \$100 more into the Health Savings Accounts for active employees and for early retirees. The agency additionally rebuilt some dental benefit over and above the cleanings and the examinations for some restorative services. And the deductibles were reduced by \$100 for the individual and by \$200 for the family in the plan. Mr. Bibb said the only bit that was restored that had any affect on Medicare retirees was that they could participate in the dental program of PEBP, but they also had to pay the appropriate premium for that out of the \$50 minimum or \$200 per month maximum HRA. With that in mind, Mr. Bibb said that perhaps some flexibility could be used to determine whether there was some additional benefit based on reserves that could potentially be restored for Medicare retirees.

Secondly, Mr. Bibb said he believed there was some vehicle that existed for oversight because it was a dramatic change to send 9,000-plus Medicare retirees and 5,000-plus state Medicare retirees to the private sector. There was a vehicle for oversight to monitor the success of the Medicare exchange and that would be through the Interim Retirement and Benefits Committee of the Commission.

Frank Papaiani, Director at Large, American Federation of State, County and Municipal Employees (AFSCME), reminded the Committee that one member could be responsible for \$2,400 of the family deductible. He maintained it was not always a family deductible, because if the member went to the hospital and had extra expense that member was responsible for the entire \$2,400 deductible.

Mr. Papaiani said the other thing he wanted to address was there were actually two tiers for the so-called subsidy, which he believed was not a subsidy, but a payment. If an employee had retired prior to January 1, 1994, that employee would receive a flat \$150 per month in his HRA. If an employee retired after January 1, 1994, he received \$10 per month, up to \$200, which was a \$50 difference. He said he did not disagree with that difference.

Mr. Papaiani said the other thing he would like to mention was the reduction of \$5,000 in the life insurance for retirees. He noted that many retirees were on the lower end of the pay scale, and they used the \$10,000 in life insurance as part of their burial expense. Now that the life insurance was being reduced, those retirees, at 70 and 80 years old would have to purchase insurance to cover that extra \$5,000. Mr. Papaiani said that was not an easy proposition at 70 or 80 years old.

Tom Young, private citizen, said he was a retiree from 35 years of service with the State of Nevada, and he was also raising a child. He said his HMO insurance was practically doubling in price. Mr. Young said he had been promised certain retirement benefits when he went to work for the State of Nevada. The reason he had worked at public service was for the benefits, and now the benefits in the state were being destroyed.

Vishu Subramaniam, representing AFSME Local 4041, testified that the PEBP budget, as proposed, would increase costs to state employees for prescriptions, doctor's visits, and specialist's visits. Mr. Subramaniam said when employees currently visited their doctors they had copays but with the change to the high deductible PPO plan, employees would have to pay whatever they were being charged. He said he was here to request additional funding for the PEBP budget, so that state employees would have an affordable plan they could use and not pay exorbitant out-of-pocket expenses.

Chair Horsford requested that a PEBP representative answer the question of why the rate change for the state health care plan was so dramatic.

James R. Wells, Executive Officer, Public Employees' Benefits Program (PEBP) responded that the PEBP Board had considered several alternatives last summer. The Board had a full-day workshop in July 2010 and another full day meeting in August 2010 to discuss changes to the plan. The Budget Division had requested the Board to put the PEBP budget together under a flat subsidy. Mr. Wells said that meant any increases in costs and any inflation or utilization increases were to be passed on to the participants. There were basically two different plans considered that could have been used to pass those increases onto participants. One plan was to increase everyone's premiums, and the second plan was to make plan design changes that would curve the expenditures for the plan and not raise the premiums as much. In 2009, when the Board went through a similar process, approximately 50 percent of the reduction was in plan design changes, and the other 50 percent was in increases to premiums. Mr. Wells said what PEBP continued to see was double-digit inflation increases in the plan after those changes were made. This time the PEBP Board tried to find a way to bend the cost curve for what was paid out, instead of continuing to increase premiums. Mr. Wells said that was when the agency presented the Board with a recommendation for the High Deductible Health Plan, also known as a Consumer-Driven Health Plan (CDHP).

Mr. Wells said that first \$700 in the Health Savings Account (HSA), or the Health Reimbursement Account (HRA), went toward the \$1,900 deductible. The first \$700 was covered by PEBP, and then there was a gap from \$700 to \$1,900, which was the basic deductible. After meeting the deductible, the plan began paying 75 percent until the participant had reached an out-of-pocket maximum of \$3,900 as an individual.

According to Mr. Wells, the same principle worked on the family coverage. With a husband, wife, and two children, the maximum amount in a Health Savings Account or Health Reimbursement Account would be \$1,300. The \$1,300 applied toward the family \$3,800 deductible with a gap from \$1,300 to \$3,800. At \$3,800 the plan began paying coinsurance. Mr. Wells said one of the things that had been mentioned was that there was an individual family member deductible built in to the family coverage which was \$2,400. The first \$2,400 of any one individual family member was deductible at that point. Any further costs for that individual were under coinsurance.

The Health Reimbursement Arrangements (HRAs) had the ability to provide some first dollar coverage. Mr. Wells explained that the plan was continuing to provide wellness benefits that were first dollars, not subject to a deductible, and

were paid 100 percent by the plan. He said procedures such as mammograms, prostate examinations, colonoscopies when they were warranted, immunizations, and flu vaccinations were covered under the plan at 100 percent. The participant did not have to use the HSA or HRA to pay for those wellness costs.

Mr. Wells said the other item that the Board considered was the copayment structure, which was somewhat misleading to the participant. A participant went to the doctor, paid a \$20 copay, but really did not know how much that doctor visit cost. The HSA and the HRA gave the participant firsthand knowledge of how much the procedure, doctor visit, or drug was costing. Mr. Wells said it was hoped that that knowledge would enable participants to start asking questions, such as was this procedure necessary or were there alternatives. He said that was one of the areas where the high deductible health plans showed there was a potential to bend the cost curve.

Chair Horsford asked whether rates were raised uniformly for all plan participants.

Mr. Wells replied that the premiums for this biennium were raised after setting some benchmark parameters. Originally the subsidy was approximately 90 percent of the primary participants' coverage for the base plan, which was the CDHP or the PPO plan. The PEBP did not want to cover a complete 90 percent of the HMO plans, because the benefits were so much richer. If the premiums had been approximately the same, everyone would have moved to the HMO plan. Mr. Wells said 15 percent was deducted from the base plan to arrive at the amount that would subsidize the primary participant on the HMO. Because there were variations between the different plans on the percentage that was subsidized for dependents, the PEBP wanted to standardize that and take 20 percentage points below the primary participants' contribution percentage. Mr. Wells said that was how the 15 percent and 20 percent premium contributions for active employees and retirees had been arrived at.

Chair Horsford asked about the adequacy issue and the fact that the rate structure in southern Nevada was not as high as in the rest of the state, and yet the rate increase still applied.

Mr. Wells said one of the things the Board had examined in deciding to blend the premiums for the HMO product between the north and the south was an equity position. Participants in the north, even though their HMO benefits were not quite as rich as the benefits for the HMO in the south, were paying a higher premium. The Board noted that there were no other places in compensation

where there was a differentiation between the north and the south, other than the HMO premiums. The Board voted to blend the premiums between the north and south to come up with a statewide premium that was used for all HMO participants.

Mr. Wells said that blending had resulted in premiums going up more in the south than in the north, but in previous years southern HMO premiums had been less than the HMO in the north.

Assemblywoman Carlton commented that a PPO was a totally separate network from an HMO. An HMO was contracted and was managed care. The HMO up north had one contracted rate and the HMO down south had another contracted rate. Assemblywoman Carlton said she was concerned that PEBP was incentivizing employees to move to the HMO, which would cause the burden to fall upon the lower contracted rates in the south rather than the higher contracted rates in the north. She said she knew the contractor in southern Nevada had not asked for a rate increase, and the money would not be going to those doctors and their costs, but would be going to the fund to pay for someone else.

Mr. Wells replied that the southern HMO rate increase for the upcoming fiscal year was 9.4 percent. He further stated that only the HMO rates were blended together to come up with a single statewide rate. There was no subsidization of the PPO plan by blending the HMO rates.

Assemblywoman Carlton commented that individual employees were being subsidized at different rates, depending upon what plan they chose. She asked what the current subsidized rates were for a PPO participant in the south and an HMO participant in the south.

Mr. Wells said if a participant selected the PPO plan, the state would pay 92.8 percent of the premium. If a participant selected the HMO plan, the state would pay 77.8 percent of the premium.

Assemblywoman Carlton noted there was a disparity just within those two plans, but that was a choice that a state employee could make.

Mr. Wells acknowledged that was correct, and part of the reason for the differential was the benefit package that was offered.

In response to a question from Assemblywoman Carlton, Mr. Wells said the current subsidy for the PPO, both north and south, was 93 percent. For the

HMO the subsidy was set at 85 percent of the individual premiums, which was a different percentage in the north and in the south.

Assemblywoman Carlton said the “leveling” that Mr. Wells was talking about was basically bringing the cost of the HMO participants in the south up to the cost in the north. She said PEBP was not subsidizing the HMO participants fairly and equally and that was her concern.

Mr. Wells said it was an across-the-board issue, and PEBP had tried to arrive at some equity. There was a dollar differentiation for every individual employee based on the plan and tier that they selected. There was a different dollar amount, not necessarily percentage contribution, for employees based on whether they signed up as employee only or whether they covered a spouse, children, or their family. Mr. Wells said there was a different dollar amount if the participant chose the HMO in the north, the HMO in the south, or the PPO plan. While the PPO plan was the same for north and south, it was different for the HMO north and south. He said one of the things the Board elected to do was standardize the HMO contribution between the north and the south.

Senator Horsford asked what the result was of standardizing the plan.

Mr. Wells responded that the result of blending the premiums and creating a single statewide premium meant that the premium for an HMO member in the south was higher than it would be under today’s methodology, and in the north, the premium would be lower.

Due to the absence of Chairwoman Smith, Senator Horsford assumed the duties of the chair.

Chair Horsford asked what had been the PEBP Board’s rationale for the blending and why was there had been no “phasing in” or some type of adjustment recognizing that everyone’s health costs were going up. He said the blending had created a situation where premiums for plan members in southern Nevada increased more than needed based on the plan benefits that participants were receiving.

Mr. Wells explained that part of the increase was the change in the benefit structure to the HMO. When the Board voted to implement these changes, the participants who selected the PPO plan were going to pay more out-of-pocket when they used services. The benefit structure of the HMOs did not change at all, so those participants were not going to have any change in out-of-pocket

costs when they used services. The HMO participants' cost was implemented through a premium increase, north and south. Mr. Wells said it was the blending that caused the issue.

Chair Horsford said it appeared as though everyone's health care costs went up because of the cost of the plan and the adjustments of the plan by the PEBP Board. But, the secondary issue was the blending decision which caused the southern Nevada plan participants' rate to go up higher than what they received from the plan benefits.

Mr. Wells agreed that participants in the southern Nevada HMO had their premiums increased more than those participants in the northern HMO.

Chair Horsford commented that rates went up more than needed for the benefits received.

Mr. Wells acknowledged the premium went up more than it would have had the old methodology of a percentage of the southern premium been used.

Chair Horsford asked why the PEBP Board had not continued with the old allocation plan rather than add the burden to southern HMO plan participants.

Mr. Wells said it was an equity issue. If the PEBP Board had not blended any of the premiums and the percentage differential between the PPO plan and the HMO plan resulted in a small difference in premiums, employees in the south would have moved to the HMO and everyone outside of the south would have gone to the PPO because the premium differential was different. Mr. Wells said the potential adverse selection caused a few different problems.

One problem, according to Mr. Wells, was that it would place an extra burden on the southern HMO to provide enough doctors if everyone went to that plan because the premium differential was so close. The second problem was that overall PPO costs would increase because the northern market was more expensive.

Chair Horsford asked whether it was more expensive because of fewer providers, and Mr. Wells replied that was correct.

Chair Horsford asked what the PEBP Board was doing to try to get more providers into the northern network.

Mr. Wells explained the market was not large enough from a purely demographic standpoint. There was one hospital in Carson City and two network hospitals in Reno. In the southern market there were a dozen hospitals with three different networks of groups. Mr. Wells said it was that kind of competition that drove down costs in the southern market.

Senator Denis said he would like to hear what the actual premium differences were, both currently, and after July 1, 2011.

Mr. Wells said if a participant currently on the HMO in the north for FY 2011 used family coverage, the rate was \$301.93 per month. That was the participant contribution; the premium was \$1,307.02. The state provided \$1,005.09. For a participant on the southern HMO for family coverage in FY 2011, the premium was \$972.25, the subsidy amount was \$717.18, and the out-of-pocket cost to the participant was \$255.07.

Ms. Freed provided the figures for FY 2012. In the statewide HMO, the total rate was \$1,307.73 with the base subsidy of \$860.89 for a total participant share of \$446.84 a month.

Assemblyman Goicoechea questioned the HMO availability in the north. He said outside of Reno there was only one HMO available in the north, and most state employees were forced into the PPO.

Mr. Wells said there was only one HMO available in any one given county. The northern HMO, technically, covered all but Lincoln, Nye, Esmeralda, and Clark Counties. Mr. Wells said the Hometown Health Network, the HMO provider in the north, was sporadic in the rural parts of the state. There were places where participating in the northern HMO would require driving long distances to see in-network providers. He acknowledged that Assemblyman Goicoechea was correct; there were still issues with the PPO network being the predominant one in the rural counties.

Assemblyman Goicoechea commented that with \$4 a gallon fuel it was difficult to drive long distances for health care and save any money.

Chair Horsford asked how a non-Medicare retiree enrolled in the PPO plan with pancreatic cancer would be covered effective July 1, 2011, based on the treatment they were currently undergoing.

Mr. Wells said he was going to add a couple of qualifiers to the scenario. One qualifier was that this was a non-Medicare retiree who was going to stay

on the High Deductible Health Plan, and this person was a single participant not covering any spouse or other dependents. Based on that premise, the retiree on July 1, 2011, will receive \$700 into their Health Reimbursement Arrangement (HRA) account. The retiree participant would be able to use that \$700 toward any service that they received, such as a doctor visit or drugs for the cancer treatment. After that \$700 was exhausted, that participant would then spend their own money from \$701 to \$1,900, equaling \$1,200 out-of-pocket. At the \$1,900 point, the plan would pay 75 percent and the participant would pay 25 percent up to the total out-of-pocket amount. The most that person would pay out-of-pocket for the entire plan year would be \$3,900, plus their premiums. After the participant reached the \$3,900 out-of-pocket cost, the plan paid 100 percent for the balance of the year.

Chair Horsford asked whether employees and retirees had any choice at all based on the change in the plan to go to a different plan or whether participants were left with moving to the High Deductible Health Plan.

Mr. Wells replied that person could select an HMO plan and depending on whether that person lived in the north or the south, that participant would then pay copayments the same as on the PPO plan. The copayments differ between the north and the south. Mr. Wells said he believed the copay was \$25 for a primary care physician visit in the north and \$15 in the south. A specialist visit was \$40 or \$45 in the north and \$25 in the south. That person could choose the HMO coverage, but their premium would be higher, but their out-of-pocket when they used services would be set according to the copayment schedule for both their doctor visits and their prescription medications.

In response to a question from Chair Horsford, Mr. Wells explained that Medicare retirees would call Extend Health, which was the benefit coordinator for the exchange. The participant would tell the benefit advisor at Extend Health about drugs taken, doctors visited, and the conditions being treated for, and the benefit advisor would work with participant to enroll them in the best Medicare plan for their needs. The Medicare retirees would be able to pick a health insurance plan that would cover 100 percent of costs because Medicare picked up the first 80 percent. Mr. Wells said the Medigap plans picked up anything that Medicare did not pay for, and the basic out-of-pocket costs for medical visits would be almost nothing. Depending on the participant's age and where they lived, the premium would be identified, and they would use the \$200 per month in their HRAs toward that premium. Mr. Wells noted that most people had been able to get the Medicare premium for less than the \$200 per month.

Assemblywoman Carlton said she was a little confused because Hometown Health was mentioned, and she knew they provided benefits to some county and municipal workers, but their benefit plan did not seem to be as expensive as the state plan. If the state was using the same line of the contractors as the counties, Assemblywoman Carlton wondered about the difference in cost.

Ms. Freed replied that the reason local entities had a comparable product for less money was generally because they did not subsidize their retirees in the pool. For instance, local entity retirees received the implicit subsidy of being in the pool once they retired, but did not receive a contribution toward their premium. Ms. Freed said the state was fairly unique among public entities in Nevada in that it provided subsidized retiree healthcare.

Assemblywoman Carlton said she was concerned that in a couple of years all of the older actives and retirees were going to end up in the HMO because of needed health care that would drive up the cost even more. Then the participants with families would drop dependent health care, and there would be more uninsured children in the state.

Assemblyman Kirner disclosed that he was a participant in the PEBP process during the early stages because he had been chairman of the Board of the Public Employees' Benefits Program. He said the PEBP Board had, because of the budget requirements, made decisions which were vetted item by item, public comment by public comment. Assemblyman Kirner said he recognized that some of the changes being proposed were not comfortable, but there were many variables, and the Board had worked with staff to try to balance the program both here and now, as well as strategically. Assemblyman Kirner said he recognized these were not easy decisions for the Legislature to support, but he believed the plan should be supported.

ASSEMBLYMAN KIRNER MOVED TO APPROVE DECISION UNITS
E660 AND E661 IN BUDGET ACCOUNT 1338 AS RECOMMENDED
BY THE GOVERNOR.

SENATOR KIECKHEFER SECONDED THE MOTION.

Assemblywoman Carlton said she understood that the state was having tough economic times and tough choices had to be made, but she would be more comfortable with a transition period, or smoothing effect, for the majority of state workers who were in the HMO down south. She requested that the maker of the motion and the second accept an amendment to that motion to

consider allowing a transition period because the motion was drastic to state employees in such difficult economic times.

Chair Horsford summarized that the request to the maker of the motion was to somehow require the PEBP Board to review the blending approach and to either phase-in or somehow stagger the full increase to the HMO participants in the south. Chair Horsford asked whether the maker of the motion would support an amendment.

Assemblyman Kirner commented that in today's medical environment where there had been double-digit medical inflation for the last ten years, those numbers did not seem to be extraordinary. Blending the HMO premiums was another issue, and the Board had made a decision on that. He said he did not agree with the proposed amendment.

Assemblyman Conklin said he agreed with his colleague from southern Nevada about the blending because southern Nevada employees were being charged for the cost of northern Nevada insurance. He agreed with Assemblywoman Carlton that a transition period before implementing the changes was reasonable.

Chair Horsford requested that Assemblywoman Carlton make the motion to amend the motion on the table and the Committee would consider just the amendment without the motion.

ASSEMBLYWOMAN CARLTON MOVED TO ISSUE A LETTER OF INTENT TO THE BOARD OF THE PUBLIC EMPLOYEES' BENEFITS PLAN TO PURSUE OPTIONS TO ADDRESS THE HMO BLENDING ISSUE EVEN IF THE MAIN MOTION TO MAKE THE SUBSIDY REDUCTION APPLIED.

ASSEMBLYWOMAN MASTROLUCA SECONDED THE MOTION.

Assemblyman Ocegüera said he would be supportive of the amendment to the original motion because southern Nevadans were paying to subsidize the premiums of northern Nevadans.

Assemblyman Kirner stated the motion for amendment was an issue of HMO premiums. He said he did not know how many of the state employees were in the north, but believed it was more than half. The PEBP Board had decided equity was more important than providing a better deal for southern HMO participants and had decided that statewide everyone paid the same amount.

Assemblyman Conklin commented that the blending of HMO premiums was not making northern Nevada participants pay more because they already paid more because of market conditions. He said that PEBP was asking southern Nevada to pay more, and if the motion was not approved and the HMO premiums were left as they currently were, everyone would be paying what they should be paying because that was what they had been doing all along. Assemblyman Conklin noted that the premium structure for the HMO participants was being drastically changed.

Assemblyman Kirner commented that was exactly what had been done with the PPO; it was a flat rate across the state. He said one could argue that the PPO should be lower in the south and higher in the north because of market conditions.

Chair Horsford noted that most of the discussion had been about policy without a policy bill.

Chair Horsford clarified that cost savings to the budget was the same under the motion to amend that was on the table. The Letter of Intent would require the Board to identify what those costs were and to bring them forward for further review.

Assemblywoman Smith said she sympathized with the southern Nevada employees carrying more of the weight, but said she could not support the motion. State employees were living where their work was, and it was not the fault of those employees that they lived in a place where there was not a better HMO plan.

THE MOTION TO AMEND FAILED. (Senators Cegavske, Kieckhefer, Leslie, and Rhoads, and Assemblymen Bobzien, Goicoechea, Grady, Hambrick, Hardy, Hickey, Kirner, and Smith voted no.)

Chair Horsford called for a vote on the original motion by Assemblyman Kirner.

THE MOTION CARRIED. (Senator Denis and Assemblymen Aizley and Carlton voted no.)

[Transcriber's note: One budget closing item for BA 1338 was overlooked at this point, but the item was considered later in the meeting and the budget was closed.]

PUBLIC EMPLOYEES' BENEFITS PROGRAM
PEBP-RETIRED EMPLOYEE GROUP INSURANCE (680-1368)
BUDGET PAGE PEBP-11

Laura Freed, Senior Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB), said the next budget for closing was the Retired Employee Group Insurance (REGI). There were no major closing issues; there was some discussion in the other closing items of the Other Post-Employment Benefits (OPEB) liability, sometimes called the GASB (Governmental Accounting Standards Board (GASB) liability. With the plan design changes and the subsidy changes just approved, the Public Employees' Benefits Program (PEBP) would have its actuary recalculate the OPEB liability resulting from the plan design changes after the Legislative session. She said liability would probably decrease as a result of the plan design changes.

Ms. Freed explained that the state's contribution toward retiree health insurance for each month of the upcoming two fiscal years was designed to fund both the subsidies and the Health Reimbursement Arrangement (HRA) funding provided for the non-Medicare retirees, as well as the HRA funding provided for the Medicare retirees. She said the closing items were informational only and did not require action by the Committee. Fiscal staff recommended closing the budget as recommended by the Governor and requested authority to adjust any amounts necessary to match closing actions for the main Public Employees' Benefits Program (PEBP) operating budget.

ASSEMBLYMAN HARDY MOVED TO APPROVE CLOSING BUDGET ACCOUNT 1368 AS RECOMMENDED BY THE GOVERNOR AND GRANT AUTHORITY TO THE FISCAL ANALYSIS DIVISION TO ADJUST THE AMOUNTS IN THE ACCOUNT TO MATCH THE CLOSING ACTIONS FOR THE MAIN PUBLIC EMPLOYEES' BENEFITS PROGRAM OPERATING BUDGET 1338 AS NECESSARY.

SENATOR KIECKHEFER SECONDED THE MOTION.

THE MOTION CARRIED. (Assemblyman Hambrick was not present for the vote.)

BUDGET CLOSED.

PUBLIC EMPLOYEES' BENEFITS PROGRAM
PEBP-ACTIVE EMPLOYEE GROUP INSURANCE (666-1390)
BUDGET PAGE PEBP-18

Laura Freed, Senior Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB), presented the Active Employees Group Insurance, (AEGIS), budget account 1390. There was one major closing issue.

Decision unit Enhancement (E) 673 recommended reducing the subsidy for part-time state workers—0.50 full-time equivalent (FTE) to 0.74 FTE—from the full state contribution to 60 percent of the full contribution effective July 1, 2012. Because the Governor recommended a per person active contribution of \$735.60 per month for FY 2013, 60 percent of that would be \$441.36.

As submitted in The Executive Budget, the total subsidy reduction was \$1.6 million, and of that, \$1.5 million was General Fund savings. In reviewing the positions in each agency that were flagged in the budget system to receive health insurance benefits, Fiscal staff noted some discrepancies, particularly in the accounts for the Nevada System of Higher Education (NSHE). It appeared that numerous part-time positions in the NSHE's various accounts were flagged as being eligible for health insurance when they were not, or they were flagged not to have health insurance when they should have. To complicate matters further, Ms. Freed said certain positions within NSHE accounts were less than half-time, but the incumbent occupied two positions within the account, both less than 0.50 FTE. In that case, because the incumbent worked sufficient hours to receive health insurance coverage, one position should be assessed for AEGIS, while one position should not.

The effect of the quality assurance review in the budget amendments for NSHE was to add back \$821,455 in General Fund appropriations for decision unit Enhancement (E) 673. If the Committee accepted those budget amendments in closing the NSHE budget, the revised total General Fund savings from decision unit E673 would be \$690,557 in FY 2013.

The General Fund savings from the nonuniversity accounts totaled \$482,256 in FY 2013, and the NSHE contribution to the total savings was \$208,301.

Ms. Freed noted there were 350 incumbents across state government that would be affected by this budget reduction. That number was reduced from the number discussed at the Joint Subcommittee hearing, and it was also reduced from the calculated amount derived in The Executive Budget, which were 496 incumbents.

Finally, Ms. Freed said that section 7 of Assembly Bill (A.B.) 553 would codify the subsidy decrease for the part-time active employees, and if the Committee chose to disapprove this budget reduction, that portion of the bill would need to be deleted.

ASSEMBLYMAN CONKLIN MOVED TO NOT APPROVE DECISION
UNIT E673 IN BUDGET ACCOUNT 1390.

ASSEMBLYMAN AIZLEY SECONDED THE MOTION.

THE MOTION CARRIED. (Senators Cegavske, Kieckhefer, Rhoads,
and Assemblymen Goicoechea, Grady, Hambrick, Hardy, Hickey,
and Kirner voted no.)

* * * * *

Ms. Freed said there were two other closing items that were informational and required no action by the Joint Committee. The two closing items were the state contribution for active employee insurance and a change in the fund number into which the AEGIS budget resided. Fiscal staff requested authority to adjust this account depending on the closing actions for the main budget.

ASSEMBLYWOMAN SMITH MOVED TO APPROVE GRANTING
FISCAL STAFF AUTHORITY TO ADJUST BUDGET
ACCOUNT 1390 DEPENDING ON THE CLOSING ACTIONS FOR
BUDGET ACCOUNT 1338.

SENATOR LESLIE SECONDED THE MOTION.

THE MOTION CARRIED.

BUDGET CLOSED.

* * * * *

PUBLIC EMPLOYEES' BENEFITS PROGRAM
PEBP-PUBLIC EMPLOYEES' BENEFITS PROGRAM (101-1338)
BUDGET PAGE PEBP-1

Ms. Freed referred to budget account (BA) 1338, decision unit Enhancement (E) 400 in the main Public Employees' Benefits Program (PEBP) operating budget. The decision unit required action from the Committee to continue the Wellness Program that was implemented in fiscal year (FY) 2011 into the upcoming biennium.

SENATOR LESLIE MOVED TO APPROVE DECISION UNIT E400 IN
BUDGET ACCOUNT 1338 AS RECOMMENDED BY THE
GOVERNOR.

ASSEMBLYWOMAN SMITH SECONDED THE MOTION.

THE MOTION CARRIED. (Assemblywoman Carlton voted no.)

BUDGET CLOSED.

* * * * *

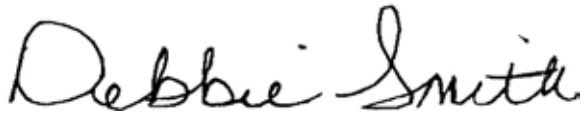
Assembly Committee on Ways and Means
Senate Committee on Finance
May 9, 2011
Page 51

Chair Horsford asked for further questions or any public comment and there was none. He adjourned the meeting at 12:07 p.m.

RESPECTFULLY SUBMITTED:

Anne Bowen
Committee Secretary

APPROVED BY:



Assemblywoman Debbie Smith, Chairwoman

DATE: _____

Senator Steven A. Horsford, Chair

DATE: _____

EXHIBITS

Committee Name: Assembly Committee on Ways and Means/Senate Committee on Finance

Date: May 9, 2011

Time of Meeting: 8:48 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Guest sign-in sheets